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DEPARTMENT FOR AF/S AND EEB/CBA - DENNIS WINSTEAD
COMMERCE FOR 4510/ITA/IEP/ANESA/OA

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SUBJECT: ZAMBIA APRIL 2008 ECONOMIC ROUNDUP

REF: A) LUSAKA 479
B) LUSAKA 396
C) LUSAKA 349

1. SUMMARY

- Inflation Rises to Double Digits
- New Mineral Tax Regime Approved
- GRZ Revises Mines and Mineral Development Act
- GRZ Offers Uranium Mining Licenses
- GRZ Phases Out Leaded Fuel
- Celtel Offers Shares
- LuSe to Automate its Trading System

Inflation Rises to Double Digits

1.2. The Central Statistical Office (CSO) recorded a year-on-year inflation rate of 10.1 percent for the month of April, reflecting a slight increase from the March rate of 9.8 percent. CSO Director Elfrida Chulu attributed the upward movement to food and energy price increases. Rising fuel costs as well as localized food shortages, due to flooding earlier in the year, will continue to exert strong inflationary pressure. By septel (Ref A), Post reported in greater detail on the impact of rising food and agricultural commodity prices in Zambia.

New Mineral Tax Regime Approved

1.3. The GRZ's new mineral tax regime (Ref C), which includes higher royalty and corporate tax rates and introduces a windfall tax, was approved by Parliament on April 1. Although several mining companies have threatened to take legal action against the GRZ for introducing tax rates that violate the terms of their development agreements (Ref B), some companies now appear to have accepted the new regime. Deb Bandyopadhyay, Director of Konkola Copper Mine, Zambia's largest copper mine, told reporters: "The new taxes are an Act of Parliament. We cannot fight with Government over something that is law. We shall not go to court or renegotiate the new tax." Despite high international prices, however, a Mopani Copper Mines representative announced that his company will have to reduce its workforce in order to meet the new tax obligations. Other mine representatives told Embassy officers that until a statutory instrument is introduced, the new tax regime is not completely final, and discussions continue with the GRZ.

GRZ Revises Mines and Mineral Development Act

1.4. Parliament also approved a revised Mines and Mineral Development Act that terminates all existing mining development agreements and forbids the Minister of Mines from entering into future development agreements. The law stipulates penalties to companies that fail to pay royalties on time. It also limits non-Zambian ownership of mining enterprises to 49 percent in order to increase local participation in the mining sector. The law calls for the establishment of a mining rights registry to facilitate mineral exploration, requires investors to provide plans for empowering

Zambians, reserves industrial mineral mining to Zambians, and prohibits the renewal of prospecting licenses.

GRZ Offers Uranium Mining Licenses

¶5. Mines and Mineral Development Minister Kalombo Mwansa told reporters that the United Nations International Atomic Energy Agency (IAEA) has approved regulations for mining uranium in Zambia. Mwansa indicated that the GRZ will incorporate the IAEA guidelines into Zambian law by August, after which the Ministry will begin issuing uranium mining licenses. Prospectors include OMEGA Corporation Minerals, AIM Resources, Energy Ventures, Equinox Resources, Zambezi Resources, African Energy Resources, Aldershot Resources, Lithic Metals and Energy, Kiwara Resources, and Globe Uranium. According to press reports, Africa Energy Resources intends to produce enough uranium to generate one thousand mega watts of electricity annually.

GRZ Phases Out Leaded Fuel

¶6. The GRZ ban on leaded fuel took effect on April 1. The government- controlled and private sector-operated Indeni Refinery, which is the principal supplier of fuel products throughout Zambia, shifted its production from leaded to unleaded fuel in March 2008. Many private sector representatives confirmed that they managed to deplete their supplies of leaded fuel by March 31. To facilitate this process, the Energy Regulation Board hosted workshops in 2007. This development brings Zambia into belated compliance with SADC requirements that SADC member states phase out leaded fuel by January 2006.

Celtel Offers Shares

LUSAKA 00000529 002 OF 002

¶7. Zambia's largest mobile telephone service provider has made an initial public offering on the Lusaka Stock Exchange (LuSE) of 1.04 billion shares, which amounts to 20 percent of its total equity. Celtel Zambia, a subsidiary of Zain Group of Companies of Kuwait, currently has a 78 percent market share and a subscriber base of 1.9 million customers. Celtel is the first cellular company in Zambia to list its shares on the LuSE. According to advisors managing the IPO, this share offering is five times larger than any previous offering on the LuSE.

LuSE to Automate its Trading System

¶8. LuSE General Manager Beatrice Nkanza announced in Lusaka that her company had engaged MIT, a Sri Lankan company, to install an automated trading system, which will offer cross listings and real time information sharing and will enable investors and brokers in outlying areas to engage in Internet trading. The LuSE, which was established in 1993, currently has 17 listed companies.

MARTINEZ